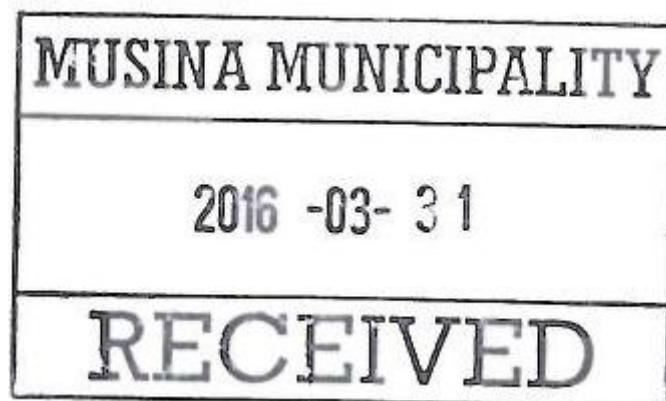




MUSINA LOCAL MUNICIPALITY

OVERSIGHT REPORT: 2014/2015



CHAIRPERSON'S REMARKS

The South African legislative framework upholds a democratic, consultative, transparent and accountable systems of governance.

Section 4 of the Local Government Municipal Systems Act (MSA) accords rights and duties to municipal councils to govern local government affairs in the best interests of the local community and to provide a system of government that is democratic, accountable and involves the local community.

Whilst section 4 (2) (d) of the Local Government Municipal Systems Act (MSA) affords a responsibility to municipal councils to ensure that municipal services are provided to the local community in a financially and environmentally sustainable manner, chapter 12 of the Local Government Municipal Finance Management Act sets compliance requirements for accountability through audited annual reports for each completed financial year.

The Local Government Municipal Finance Management Act prescribes for the compilation and auditing of Annual Financial Statements (AFS) for the municipality and its entities.

Section 127 of the Local Government Municipal Finance Management Act (MFMA) requires that a mayor of a municipality must within the prescribed period table an annual report detailing performance of a municipality during the preceding financial year, further the section provides compliance requirements to be observed by the accounting officer immediately after the annual report has been tabled.

Council has as empowered by section 79 of the Local Government Municipal Structures Act established the Municipal Public Accounts Committee (MPAC) to enhance council oversight on municipal activities.

It is against the above backdrop that the centrality of accountability and good governance cannot be over emphasised, it is in pursuant of an ideal for a better life of our people that the municipality strives to administer its affairs in a manner that is considerate of the shared best interest of residence within its jurisdictional area.

By complying with provisions of section 121, 126 and 127 of the Local Government Municipal Finance Management Act (MFMA) Musina Local Municipality has demonstrated its commitment to a transparent and accountable local government institution subscribing to sound financial management practice and exceptional performance of designated roles and responsibilities in furtherance of a people centred provision of municipal services.

It is based on the above that after vigorous processes and effort of a collective, that MPAC is now in a position to table to council an oversight report on the 2014/2015 Musina Local Municipality Annual Report.

Word of recognition goes to all members of the Municipal Public Account Committee who have contributed to the task delegated by council of considering the 2014/2015 annual report and ensuring that the oversight role of council is expeditiously fulfilled without failure.

We recognise and appreciate in all earnest the support received from the Office of Auditor General, the provincial department of Cooperative Governance Human Settlement and Traditional Affairs and the municipal administrative component.

For the year under review the municipality attained an unqualified audit opinion that's an improvement on the prior year audit outcome, it is evident from the annual report that a lot of work has gone into resolving prior year findings.

The path towards a clean audit is now within reach, even more effort must be put towards clearing obstacles in our march to a clean audit.

Special acknowledgement goes to the honourable mayor Councillor M.E Mhlophe for the poised leadership, support and enabling environment provided to the committee to fulfil its mandate.

The contribution of all members of council, Mr MJ Matshivha, the Municipal Manager and Management team is particularly noted and appreciated.

I will be failing in my duty if I do not recognise the traditional authorities, stakeholders, and residence who took part by way of representations on the annual report as published and attending the public hearing.

We look forward to an even improved performance going forward that ensures provision of quality services and maintenance of a clean administration.



COUNCILLOR SE SHIRILELE
CHAIRPERSON - MPAC

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1. MEMBERS OF THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

(A) CLLR. S.E SHIRILELE (Chairperson)

(B) CLLR. G.S PHIRI

(C) CLLR. S.M TLOU

(D) CLLR. G MAVHUNGU

2. OVERVIEW

Each municipality is required to prepare an Annual report in terms of Section 121 of the Local Government Municipal Finance Management Act (MFMA) compliant with requirements of National Treasury MFMA Circular 11 and 63.

The purpose of the Annual Report is:

- ✓ To provide a record of the activities of the municipality or entity;
- ✓ To provide a report on performance in service delivery and budget implementation; and
- ✓ To promote accountability to the local community for decisions made.
- ✓ To provide information that supports revenue and expenditure decisions made

An Annual Report should include the following major elements:

- Annual performance report, comparing the years performance with the performance objectives established in the IDP, Budget and SDBIP's;
- Annual Financial statements submitted to the Auditor-General;
- Auditor-General's audit report on the financial statements;
- Other disclosures as required the MFMA in section 121, 123, 124, 125 (e.g. Councillor and Top management compensation, grants, bank accounts, investment information etc.)

Annual report

In compliance with sections 127 (2) of the Local Government Municipal Finance Management Act (MFMA) the mayor has on 21st January 2016 under council item 15.1.2016 tabled the 2014/2015 Annual Report (AR). Refer to a council resolution attached as **ANNEXURE A**.

The accounting officer has in accordance with section 127 (5) (a) & (b) made public the annual report, invited local community to submit representations in connection with the annual report refer to **ANNEXURE B**.

3. PROCESS FOLLOWED BY COUNCIL

MPAC adopted Circular 32 of the National Treasury as the guiding document for the oversight process but adhered to legislation i.e. MFMA.

The following documents relevant to the committee's responsibilities were distributed to each community member:

- National Treasury Circular 11 & 63 – The Annual Report
- National Treasury Circular 32 - The Oversight Report
- The annual report including the report of the Auditor General and the annual performance report

All MPAC members were afforded the sufficient time to review the annual report. Meetings were convened to discuss the annual report.

The committee also solicited inputs and comments on the annual report from the following:

- Invited the Auditor -General to attend a meeting of the committee to provide his perspective on the Annual report and on his audit report and to discuss with the committee, questions raised on the annual report.
- Invited the internal auditor to present the committee with his perspective on the annual report.
- Public Comments were invited but none were received.
- Public hearing conducted.
- COGSTHA, Auditor General and Audit Committee were invited.

Council on the 21st January 2016 has resolved to refer the Annual Report for further processing by MPAC in accordance with section 129(1) of the Local Government Municipal Systems Act, MPAC has considered the report during its meeting of 10th, 17th, 18th, 19th and 26th February 2016 refer to the records for the MPAC meeting of 10th, 17th, 18th, 19th and 26th February 2016 attached as **ANNEXURE C.**

An advertisement was published to invite viewing, consideration and written submissions, on the Annual Report, with public submissions to be submitted to the Office of the Municipal Manager and the presence of copies of the Annual Report at municipal offices and on the website, refer to the public notice attached as **ANNEXURE D.**

In addition a notice inviting the public to a public hearing on the 2014/2015 was published refer to the attached **ANNEXURE E.**

MPAC has on the 23rd March 2016 convened a public hearing on the annual report, refer to the attached records of the public hearing detailing proof of

attendance, questions asked to the accounting officer and the response thereof as well as minutes of the public hearing attached as **ANNEXURE F**.

Copies of the Annual Report and invites for comments as well as invitation to the public hearing were directed to the Office of the Auditor General, Provincial Treasury and Cooperative Governance Human Settlement & Traditional Affairs.

4. OVERSIGHT REPORT – KEY COMMENTS ON THE 2014/2015 ANNUAL REPORT

QUESTIONS OF THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC) ON THE REPORT OF THE AUDITOR GENERAL TO THE MUSINA MUNICIPAL COUNCIL ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Question 1

Going concern

The municipality incurred an operating deficit of R36.6 million for the 2014-15 financial year. As at 30 June 2015 the municipality's current liabilities exceeded its current assets by R78.5 million. The municipality underspent its infrastructure grant to the amount of R8.4 million whilst material impairment to the amount of R15.8 million was made as a result of irrecoverable debt owed to the municipality. Money owed by the municipality was not always paid within 30 days.

1. What are the root causes of the municipality's financial difficulties?

- (a) The operating cost of providing municipal services has risen sharply over the years as a result of amongst others an increased demand of services arising from an accounted population growth presumably as a result of migration activities, this is against a constant revenue base and an infrastructure that was designed for capacities lower than what it currently handles resulting in amongst others recurring service breakdowns and maintenance requirements.

- (b) Part of the contributing factors to the financial difficulties includes service theft arising from theft of equipment and illegal service access or connections which increases the cost of bulk purchases to values above billing.
- (c) Further causes that we have identified and are busy investigating is possible non cost reflective tariffs for trading services.

2. What are the corrective measures taken to improve the cash flow?

- (a) The municipality is establishing a task team focusing on identifying and implementing corrective procedures for illegal connections.
- (b) Credit control mechanisms will be implemented fully with penalties imposed.
- (c) A Tariff Structure input and operating cost analysis is been conducted to determine if the levies and charges reflects the cost of providing the service and appropriate adjustments will follow thereafter.
- (d) Development of new revenue streams is being prioritised to maximise revenue collection.
- (e) New sites are being developed and sold to increase the revenue base and consequentially
- (f) We have cut own funded capital projects and also reduce costs in printing, telephones, catering in meetings, entertainment and limiting traveling costs.

3. Was a credible 2014-15 revenue budget been prepared, as the original revenue budget increase from R187.2 million to R209.2 million, and eventually R167 million realised as the actual revenue for 2014-15, a significant variance of R42 million?

- (a) The revenue budget was credible, the budget is based on projection for the year, income that the municipality will collect based on actuals and also on the new development within the municipal area.
- (b) The municipality's budget performance was impacted by amongst others general economic slowdown witnessed by the country which essentially affected disposal income.

- (c) The municipality derives its revenue from rate payers and thus is dependent on the ability of ratepayers to pay for municipal goods and services, during the year under review the projection included anticipated revenue from sale of municipal stands which had a proven need, however due to challenges related to disposable income on the part of potential buyers and as a result projected sale of such sites was not realised.

4. Do the municipality have a revenue recovery plan in place, if, please submit to the committee?

- (a) The municipality through Department of Cooperative governance and traditional affairs and Office of the premier is busy with the process of research study on the Revenue Enhancement Strategy and also assisting the municipality with analysis of our tariff structure for 2016/2017 financial year.

Question 2 – Strategic planning and performance management as well as annual report

The following shortcomings were identified in the performance report:

- Material misstatements were identified in the annual performance report on the reported performance information for a strategic objective. Management subsequently corrected the misstatements with the result that there were no material findings on the reliability of the reported performance information.

If correction of misstatements were not allowed, there would have been findings on performance information.

- The annual performance report did not include measures taken to improve performance

1. Why was there inadequate control over the reliability of performance information?

- (a) The misstatements that were identified in annual performance report on the reported performance information which if not corrected would have resulted in

findings on reliability of performance information emanated from reliance on documentary evidence submitted as Portfolio of Evidence for reported performance coming from key performance indicators owners (departments).

- (b) Both the performance management unit and the internal audit unit did not as part of reported performance conduct physical verifications of the performance outputs.
- (c) Such misstatements or variances on actual reported performance were identified during physical verification of performance outputs.
- (d) For the 2015/16 performance reporting an internal quality assurance controls physical verification process will be undertaken by internal performance information quality assurance units to ensure reliability of reported performance information.
- (e) Moreover a higher degree of responsibility for accuracy of reported performance will be placed on performance indicators owners i.e. Heads of Department to ensure that performance information emanating from such departments are accurate and reliable.

2. Are you comfortable that all officials are well aware of the requirements of reporting on performance information and accuracy of information?

- (a) Yes I am confident that affected officials responsible for reporting on performance information at Business Units (departmental level), Internal Audit and Performance Management Unit are fairly aware of reporting requirements for performance information.
- (b) However having recognised the changing environment and practices pertaining to performance information reporting requirements and the management thereof constant training and support will be provided to affected officials to ensure improvement in accuracy of reported information.

3. Will the 2015-16 performance report include measures taken to improve performance?

- (a) During the 2014/15 audit, quarterly performance reports were submitted as annexures to the Annual Performance Report, such annexure reports

covering the four quarters of the financial year included measures to improve performance for each of the key performance indicators. Detailing amongst others actions taken and / or to be taken to enhance performance and achievement of the specific objective and individual performance indicators.

- (b) The 2015/16 Annual Performance Report and subsequent reports will directly incorporate measures to improve performance as part of the report.

Question 3 – Annual financial statements

Material misstatements of current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

1. What is the MM and CFO doing to improve the quality of financial statements?

- (a) The financial statement are prepared in accordance to General Recognised Accounting Principles and before submissions to Auditor General and Treasury they are reviewed by Internal Audit and Audit committee.
- (b) Key personnel involved in the preparation of financial statements will be sent to General Recognised Accounting Principles (GRAP) refresher sessions to improve on the quality of financial statements.

2. When last did officials receive training on the financial accounting framework as well as the specific areas that they are responsible for?

- (a) All managers has attended MFMA Programme, all junior Finance employees are currently attending National diploma in financial administration which also addresses minimum competency levels.
- (b) General Recognised Accounting Principles (GRAP) Training was attended by the CFO in November 2013. Senior Manager Finance, Manager SCM and Accountant asset management attended from February to April 2015
- (c) Currently 4 employees from Finance and Internal Audit are attending Municipal Financial Management Programme (MFMP) and are due to complete during January 2017.

- (d) Furthermore 60 municipal employees majority of which are from the finance department are currently undertaking training on Public Finance Management and Administration at NQF level 5 & 6.

Question 4 – Internal audit

Internal audit did not adequately advise the accounting officer and report to the audit committee on matters relating to accounting procedures and practices, risk and risk management and loss control, compliance and other applicable legislation

1. Why did the internal audit unit not been able to advice the accounting officer and report to the audit committee on above matters?

- (a) The advice was given to the accounting officer and reported to the audit committee but did not cover other aspects as required by the MFMA which omission had been corrected in the current financial year to cover all the aspects of the MFMA.
- (b) The internal audit charter and work plan for the year under review did not cover programmes and activities that will enable internal audit to perform all advisory functions inclusive of matters relating to accounting procedures and practices, risk and risk management and loss control, compliance and other applicable legislation
- (c) Internal audit is required to perform its responsibility as provided for within its approved charter and plan, in developing the 2014/15 charter and work plan consideration given to the capacity of the unit to be able to reasonably execute tasks allocated to it in the light of its staffing levels.

2. What corrective measures have the municipality and the audit committee established to ensure internal audit unit will perform all its legislated function?

- (a) The Internal audit annual plan had been adjusted to cover the requirement of the MFMA and the adjustment was approved by the audit committee in the sitting of the committee on the 22nd January 2016.

- (b) An additional human resource has since been added to the internal audit unit increasing the staff compliment in the unit from 2 to 3.

Question 5 – Consequence management

Prior years' unauthorised, irregular, as well as fruitless and wasteful expenditure was not investigated to determine if any person is liable

1. Why were there no investigations into the circumstances that surround the incurrence of prior years' unauthorised, irregular and fruitless and wasteful expenditure?

- (a) Prior year's unauthorised, irregular, fruitless and wasteful expenditure were accordingly disclosed and reported to council.
- (b) Accordingly council has referred such disclosures to a council committee that is Municipal Pubic Accounts Committee (MPAC) for consideration as per section 32 (2) (a) (ii) amongst others.
- (c) The Municipal Pubic Accounts Committee (MPAC) has considered the Annual Financial Statements inclusive of disclosures pertaining to unauthorised, irregular, fruitless and wasteful expenditure and have approved the Annual Report inclusive of the Annual Financial Statements.

2. What are the corrective steps taken to adhere to section 32(2) of municipal legislation (MFMA)

- (a) For the successive years from prior year disclosures the AFS has disclosed unauthorised, irregular and fruitless and wasteful expenditure, the reports are submitted to council as part of the annual report to review through the oversight process and declare whether the municipal council approves the annual report with or without reservations.
- (b) The Annual Reports of the prior years including the Annual Financial Statements have been subjected to an evaluation and scrutiny by the Municipal Public Account Committee (Council Committee).

- (c) An oversight report approving the annual report without reservations has accordingly been approved by council.
- (d) The municipal council has through the MPAC evaluated the Annual Financial Statements amongst others and has upon due process declared the municipal annual report including the annual financial statements as approved, impliedly the disclosures on unauthorised, irregular and fruitless and wasteful expenditure has accordingly been approved or condoned.

5. PROPOSED ACTIONS

- (A) Management to implement measures and mechanisms to administer and strengthen recovery of debts.
- (B) Management to establish a mechanism to ensure the establishment of a suitable performance management system that ensures reliability, measurability, quantifiable, consistent and verifiable performance information and tools.
- (C) Management must advice and introduce to council measures to evaluate the performance of the audit committee
- (D) Audit Committee must include in their reports to council an advice on legislative compliance.
- (E) Management must work on measures to ensure a reliable revenue generation system and maintenance of cash flow that enables the municipality to meet its financial obligations within prescribed time frames.
- (F) Council to through MPAC or any such council established committee evaluate, investigate and advice council on reported unauthorised, irregular, fruitless and wasteful expenditure.
- (G) Management to implement appropriate accounting treatments on council approved or condoned unauthorised, irregular, fruitless and wasteful expenditure.

6. RECOMMENDATIONS ON THE 2012/2013 ANNUAL REPORT.

- (a) That an oversight report on the 2014/2014 annual report as per the annexure be adopted.

- (b) That the municipal council has approved the annual report without reservations,
- (c) That the accounting officer publishes the annual report and oversight report and observe all processes prescribed MFMA for administering an adopted annual report and oversight report.
- (d) That the Oversight Report be submitted to the Provincial Legislature in accordance with Section 132 (2) of the Municipal Finance Management Act 56 of 2003.